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Authority 11ND 963016
By NA NARA Date 6/11/02

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PA/HO Department of State
E.O. 12958, as amended
June 21, 2006

DEF 19-8915-Gran

FORM DS 32210CRJ

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PM:TRPICKERING:ED
11/18/72 EXT. 28698
J:UAJOHNSON

DOD: ADM. MURPHY
NEA?*/RN:JMIKLOS
T:GNEWMAN
S/S - MR. ELIOT

NEA:RDAVIES
NEA/PAB:BLAINGEN
INR/ARR/RNA:CJONES

IMMEDIATE

TEHRAN

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NODIS REVIEW

Cat. A - Caption removed;
transferred to O/FADRC
Cat. B - Transferred to O/FADRC
with additional access
controlled by S/S
Cat. C - Caption and custody
retained by S/S

Reviewed by: Ambassador W. Witman, II

Date: 9/10 1975

EYES ONLY FOR AMBASSADOR FROM UNDER SECRETARY JOHNSON

SUBJECT: ENHANCE PLUS

REFS: TEHRAN 6849, 6687, 6520 AND 6317

1. WE REGRET DELAY IN RESPONDING TO REFTELS. AS YOU WILL SEE FROM THE FOLLOWING, WE HAVE HAD TO TAKE CONSIDERABLE TIME TO EXAMINE VARIOUS PROBLEMS AND PROVIDE YOU WITH INSTRUCTIONS.

2. WE WISH TO EMPHASIZE AT OUTSET THAT WE DO NOT NECESSARILY AGREE WITH THE CONCERN IN GOI REGARDING IRAN'S AIR SUPERIORITY IN THE REGION. AS A RESULT OF YOUR MESSAGES, WE HAVE REVIEWED SITUATION IN INTELLIGENCE COMMUNITY AND ELSEWHERE IN THIS LIGHT TO ATTEMPT TO PUT PROBLEM IN PERSPECTIVE. WE BELIEVE THAT OVER THE NEXT FEW YEARS, IRAN'S EFFORTS TO BUILD A COMPETENT AND WELL EQUIPPED AIR FORCE WILL ENABLE IT TO MAINTAIN AIR SUPERIORITY. HOWEVER WE HAVE FOCUSED PARTICULARLY ON PERIOD BETWEEN PRESENT AND MID AND LATE 1974 WHEN DELIVERIES OF ADDITIONAL F-4E AND F-5E AIRCRAFT SHOULD BE MORE THAN SUFFICIENT TO MAKE UP FOR ANY GAP RESULTING FROM TRANSFER OF 32 F-5A AIRCRAFT TO SVN.

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3. IN THE INTERVENING PERIOD BETWEEN PRESENT AND END FY 74, WE SEE TWO POSSIBLE AREAS WHICH MIGHT CONCERN GOI: {1} DEVELOPMENT OF IRAQI AIR FORCE AND {2} INSTABILITY ON "EASTERN BORDERS" PARTICULARLY IN PAKISTAN.

4. WITH RESPECT TO DEVELOPMENT OF IRAQI AIR CAPABILITIES, WE BELIEVE THAT OVER THE TIME PERIOD NOTED ABOVE, THE PRINCIPAL FACTOR GOVERNING IRAQI CAPABILITIES WILL BE THE DEVELOPMENT OF SUFFICIENT NUMBERS OF PROFICIENT PILOTS, AIR CREW AND MAINTENANCE PERSONNEL. THE SHAH HIMSELF IS WELL AWARE OF THE CRITICAL NATURE OF THESE FACTORS FROM EXPERIENCE WITH HIS OWN AIR FORCE. WHILE WE CAN MAKE NO FIRM PREDICTIONS ABOUT FUTURE DELIVERIES OF SOVIET-SUPPLIED EQUIPMENT TO IRAQ, WE DO NOT BELIEVE THERE WILL BE A SIGNIFICANT INCREASE IN IRAQI AIR FORCE PERSONNEL CAPABILITIES WHICH SHOULD LEAD TO HEIGHTENED CONCERN ON PART OF IRAN IN THIS PERIOD. BY LATE 1974 IT BECOMES DIFFICULT TO MAKE FIRM PREDICTIONS, BUT IIAF SHOULD BE IN SUFFICIENTLY GOOD CONDITION WITH RESPECT TO AIRCRAFT AT THAT TIME AS TO CAUSE NO SERIOUS CONCERN ON PART OF GOI ABOUT IRAQ AIR CAPABILITIES. IN ADDITION YOU MIGHT NOTE THAT WE BELIEVE ANY IRAQI DISPOSITION TOWARDS ADVENTURISM OUTSIDE ITS BORDERS IS SERIOUSLY CURTAILED BY ITS HEIGHTENED PREOCCUPATION WITH THE KURDISH PROBLEM, INFIGHTING BETWEEN SADDAM AND HIS RIVALS, GROWING BUDGETARY PROBLEMS BROUGHT ON BY OIL NATIONALIZATION AND REDUCED REVENUES, AND A RUNNING DISPUTE WITH SYRIA OVER TAPLINE REVENUES.

5. AS YOU ARE PERSONALLY AWARE, IT MOST DIFFICULT TO MAKE PREDICTIONS ABOUT FUTURE OF EVENTS IN SUB-CONTINENT. HOWEVER, BOTH BHUTTO AND MRS. GANDHI REMAIN PUBLICLY COMMITTED TO THE SIMLA AGREEMENT AND, DESPITE CURRENT DIFFICULTIES, A DIALOGUE CONTINUES BETWEEN THEIR GOVERNMENTS ON MEANS TO IMPLEMENT STEPS UNDER THAT AGREEMENT THAT COULD LAY THE BASIS FOR A NEW AND PEACEFUL ACCOMMODATION BETWEEN INDIA AND PAKISTAN. MOREOVER, BHUTTO HAS RECENTLY WORKED OUT AGREEMENT IN PRINCIPLE WITH HIS POLITICAL OPPOSITION ON THE OUTLINE OF A NEW CONSTITUTION, A DEVELOPMENT WITH IMPORTANT POSSIBILITIES FOR GREATER POLITICAL STABILITY IN PAKISTAN. -* THIS PROMISES ALSO TO GIVE HIM SOME GREATER FLEXIBILITY ON THE ISSUE OF BANGLADESH RECOGNITION AND THE SUBSEQUENT STEPS NEEDED TO ESTABLISH AN AMICABLE GOP/BDG RELATIONSHIP. HENCE WE FEEL THERE IS MINIMAL REASON TO BE DISQUIETED ABOUT SITUATION ON IRAN'S EASTERN BORDERS AND INDEED WE BELIEVE THERE IS SUFFICIENT EVIDENCE TO ASSUME A MORE

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OPTIMISTIC OUTLOOK. WHILE WE RECOGNIZE THAT RESIDUAL TENSION IN PAKISTAN COULD THREATEN ITS INTERNAL STABILITY, AND PERHAPS EVEN LEAD TO ARMED DISSIDENCE, SUCH A SITUATION WOULD NOT BE LIKELY TO LEAD TO AN INCREASED AIR THREAT TO IRAN OR AFFECT IIAF AIR SUPERIORITY IN THE REGION.

6. NEVERTHELESS, WE HAVE LOOKED AT A NUMBER OF POSSIBILITIES TO PROVIDE SHAH WITH ADDITIONAL CAPABILITIES OVER THE PERIOD OF INCREASED CONCERN. YOU ARE ALREADY AWARE OF OUR EFFORT TO MOVE F-5E DELIVERIES FORWARD IN TIME TO AUGUST 1973, OUR MOVING AHEAD ON AN EARLY BASIS TO PROVIDE ADDITIONAL MILITARY PERSONNEL, OUR EARLIER AGREEMENT WITH GENERAL TOUFANIAN TO MOVE UP DELIVERY DATES FOR F-4E'S, AND THE PROVISION OF VARIOUS TRAINING AND INSTRUCTOR SPACES IN U.S. FOR IIAF. IN ADDITION TO THE ABOVE, YOU MAY TELL SHAH THAT USG HAS APPROVED MAVERICK MISSILE FOR RELEASE TO IRAN, WITH FIRST DELIVERIES IN SPRING OF FY 1974, IF YOU BELIEVE IT IS ABSOLUTELY NECESSARY TO RESOLVE PROBLEMS RAISED BY COURT MINISTER ALAM.

7. FYI. IF YOU THINK IT WOULD BE USEFUL, WE WOULD BE PREPARED TO CONSIDER AUTHORIZING YOU TO PROVIDE THE FOLLOWING INFORMATION RELATING TO THE PROVISION OF F-5A AIRCRAFT TO VIETNAM BY OTHER COUNTRIES AND U.S. RECIPROCAL GESTURES. IF YOU DECIDE THAT YOU WANT TO DO THIS, PLEASE CABLE YOUR ASSESSMENT OF SHAH'S EXPECTED REACTION SO THAT WE CAN CONFIRM OUR ASSESSMENT HERE. BOTH THE REPUBLIC OF KOREA AND THE REPUBLIC OF CHINA AGREED TO PROVIDE A CONSIDERABLE NUMBER OF AIRCRAFT TO SOUTH VIETNAM, 36 AND 48 F-5A'S RESPECTIVELY. IN EACH CASE, WE ALSO MADE A CAREFUL ASSESSMENT OF THE AIR DEFENSE NEEDS IN THE REGION AND WHAT WE COULD OR SHOULD DO TO PROVIDE FOR ANY GAP WHICH MIGHT DEVELOP. IN KOREA, OUR ASSESSMENT WAS THAT WITH THE DEPARTURE OF SO MANY AIRCRAFT IN THE MIDDLE OF A PERIOD OF GREAT CHANGE AND WITH DISCUSSIONS CONTINUING BETWEEN NORTH AND SOUTH KOREA, IT WOULD BE NECESSARY TO PROVIDE SOMETHING IN PLACE IN RETURN TO GUARD AGAINST AN AIR DEFENSE GAP. WE THEREFORE OFFERED TO PROVIDE TWO U.S. AIR FORCE F-4 SQUADRONS, OR ALTERNATIVELY A LEASE OF 18 F-4D AIRCRAFT TO THE REPUBLIC OF KOREA. THE LATER WAS MADE POSSIBLE BY THE RETURN TO THE U.S. OF F-4 AIRCRAFT ON LEASE TO ANOTHER COUNTRY WHICH HAD DECIDED TO TERMINATE THE LEASE OF AIRCRAFT UPON ACCEPTANCE OF ANOTHER, EARLIER ORDERED AND MORE MODERN AIRPLANE FROM U.S. PRODUCTION. THE KOREANS CHOSE THE SECOND ALTERNATIVE THEREBY ABSORBING THE ONLY F-4 AIRCRAFT WE HAD AVAILABLE FOR LEASE. IN

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FACT A NUMBER OF THESE AIRCRAFT HAD TO COME FROM OUR REGULAR AIR FORCE INVENTORY WHICH IS ALREADY HEAVILY PRESSED BY ITS COMMITMENTS TO VIETNAM AND WORLDWIDE. THE REPUBLIC OF CHINA ACCEPTED THE STATIONING ON ITS TERRITORY OF TWO U.S. AIR FORCE F-4 SQUADRONS TO COVER THE AIR DEFENSE GAP WHICH WE BELIEVED WOULD OCCUR THERE. WHILE THESE ARRANGEMENTS HAVE NOT FIGURED PROMINENTLY IN PRESS COVERAGE, WE ANTICIPATE THEY WILL OVER TIME BECOME PUBLIC AND YOU SHOULD MAKE RECOMMENDATION ABOUT THEIR USE WITH THE SHAH ON THAT BASIS. END FYI.

8. WE HAVE ALSO EXAMINED AGAIN THE PROBLEM RAISED BY THE NECESSITY OF SHOWING RECIPROCAL CONSIDERATION TO THE SHAH FOR THE RELEASE OF THE 32 F-5A AIRCRAFT TO THE USG TO HELP MEET VIETNAMESE DEFENSE NEEDS IN CONTEXT OF AN HONORABLE AND ENDURING PEACE SETTLEMENT. REFERENCED MESSAGES INDICATE THAT {A} SHAH IS INTERESTED IN REPLACEMENT AIRCRAFT ONLY, NOT DOLLAR CREDIT; {B} RETURN OF F-5A'S FROM VIETNAM TO IRAN IS "NON-STARTER," {C} IRAN WOULD ACCEPT F-4E AS REPLACEMENT FOR F-5A, AND SUGGESTS ONE F-4 FOR TWO F-5A; AND {D} YOUR BELIEF USG APPROVAL OF RELEASE OF MAVERICK FOR IRAN MAY HELP ALLEVIATE SECURITY CONCERNS SHAH FEELS WITH TRANSFER OF F-5A'S.

9. THE 32 F-5A AIRCRAFT WERE GIVEN TO THE GOI BY THE USG AS MAP GRANT AID AT A COST OF 24.9 MILLION DOLLARS, OR AN AVERAGE UNIT PRICE OF 778,000 DOLLARS. TWENTY-EIGHT OF THE F-5A'S ARE FIVE TO EIGHT YEARS OLD AND FOUR ARE THREE TO FIVE YEARS OLD. FROM A PRICING STANDPOINT, BASED ON USAF CRITERIA, THE 32 F-5A'S HAVE A CURRENT VALUE OF 11.6 MILLION DOLLARS, OR 362,500 DOLLARS AVERAGE UNIT PRICE. A NEW F-4E AIRCRAFT HAS A UNIT PRICE OF 3.7 MILLION DOLLARS.

10. IN TEHRAN 6346 YOU RECOGNIZED OUR "THORNY LEGAL AND BUDGETING PROBLEMS" AND STATED, "EIGHT F-4E'S ARE PRESENTLY LEASED TO IRANIAN AIR FORCE. WE COULD OFFER TO TRANSFER TITLE ON THESE PLANES TO GOI, CREDITING PORTION OF VALUE OF TRANSFERRED F-5A'S." WE ARE PREPARED TO TRANSFER TITLE TO EIGHT LEASED F-4E'S TO GOI UNDER ARRANGEMENT WHICH WILL IN EFFECT BE WITHOUT COST TO GOI. THIS WOULD BE DONE IN FOLLOWING MANNER IN ORDER TO SATISFY U.S. LEGAL REQUIREMENTS:

A. GOI WOULD SIGN FOREIGN MILITARY SALES CONTRACT (I.E., FMS LETTER OF OFFER AND ACCEPTANCE, DD FORM 1512#3) AGREEING TO PURCHASE THE EIGHT F-4E AIRCRAFT AT DEPRECIATED UNIT PRICE OF 2,070,500 DOLLARS; TOTAL PRICE 16,564,000 DOLLARS.

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B. USG CONCURRENTLY WOULD SIGN FOREIGN MILITARY SALES CONTRACT AMENDMENTS WHICH WOULD REFLECT FIRM PRICE REDUCTIONS AGAINST SEVERAL SALES PREVIOUSLY CONSUMMATED. THESE REDUCTION AMENDMENTS WOULD TOTAL 16,564,000 DOLLARS. THE SPECIFIC PROGRAM REDUCTIONS INVOLVED ARE:

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{1} 73 F-4E AIRCRAFT, SOLD DEC. 70, REDUCED IN PRICE BY TOTAL OF 4,672,000 DOLLARS.

{2} 36 F-4E AIRCRAFT, SOLD OCT. 72 REDUCED IN PRICE BY TOTAL OF 2,304,000 DOLLARS.

{3} 36 F-T45E AIRCRAFT, SOLD FEB. 72, REDUCED IN PRICE BY TOTAL OF 2,448,000 DOLLARS.

{4} 105 F-5E AIRCRAFT, SOLD JULY 72, REDUCED IN PRICE BY TOTAL OF 7,140,000 DOLLARS.

C. GOI WOULD BE BILLED FOR THE EIGHT F-4E'S AFTER TRANSFER TO IRANIAN OWNERSHIP. BILLINGS AGAINST THE REDUCED PROGRAMS WOULD OF COURSE BE ADJUSTED TO OFFSET THE FULL AMOUNT OF THE BILLING FOR THE EIGHT F-4E'S.

D. THE USAF LEASE WOULD BE CANCELLED WITHOUT COST OF TO THE GOI. AS WE SEE IT HERE, IT WOULD BE NECESSARY FOR YOU TO EMPHASIZE THAT THE PRICE REDUCTIONS OUTLINED ABOVE ARE A FIRM SAVING TO THE GOI, AND NOT JUST A "SLEIGHT OF HAND" MANEUVER. THE METHODOLOGY IS REQUIRED TO COMPLY WITH EXISTING U.S. LAW.

11. FYI. IT IS IMPORTANT TO REALIZE THAT THE FOUR CONTRACTS ASSOCIATED WITH THE ABOVE PROGRAM REDUCTIONS ARE EXPRESSED IN TERMS OF ESTIMATED COSTS. ACTUAL COSTS WILL NOT BE KNOWN UNTIL FINAL CLOSING OF THE CASES. AS A CONSEQUENCE A "FIRM" REDUCTION OF 16.6 MILLION DOLLARS MAY BE SUBSEQUENTLY MASKED BY FLUCTUATIONS IN FINAL CONTRACT COSTS SO THAT GOI WILL FIND IT DIFFICULT TO PROVE THAT OUR "FIRM" REDUCTION ACTUALLY TOOK PLACE. YOU SHOULD REASSURE SHAH THAT THE 16.6 MILLION DOLLARS IS IN FACT A REAL ABSORPTION BY THE USG OF REAL COSTS WHICH WOULD, IN ABSENCE OF THIS ACTION, ACCRUE TO THE GOI. END FYI.

12. FYI. WE WOULD ACCOMPLISH THE ABOVE BY APPROPRIATE WAIVER OF THE NON-RECURRING SURCHARGE. YOU MAY ADVISE SHAH OF THIS IF YOU JUDGE NECESSARY BUT WE ARE RELUCTANT TO INVITE EITHER {A} POSSIBLE RECRIMINATIONS THAT WE

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SHOULD HAVE WAIVED THIS CHARGE BEFORE OR (B) A PERCEPTION
~~BY GOI THAT A COST OF THIS CHARACTER, NOT SPECIFICALLY~~
 BY GOI THAT A COST OF THIS CHARACTER, NOT SPECIFICALLY
 REQUIRED BY STATUTE AND SOMETIMES WAIVED FOR OTHER
 CUSTOMERS, IS SOMEHOW NOT EQUIVALENT TO THE GOI
 GENEROSITY INVOLVED IN RELINQUISHING THE F-5A'S SO
 READILY. END FYI.

13. YOU MAY PASS ON TO GOI AS MUCH OF CONTENT OF
 PARAGRAPHS 11 AND 12 AS YOU THINK NECESSARY AND USEFUL
 IN YOUR DISCUSSIONS WITH SHAH.

14. IN OUR VIEW THE FORTHCOMING OFFERS ALREADY MADE IN
 THE CONTEXT OF OUR ASSESSMENT OF THE SITUATION AS NOTED
 ABOVE, AND OUR NEW OFFERS OF MAVERICK AND TO TRANSFER TITLE
 TO THE EIGHT LEASED F-4E AIRCRAFT SHOULD BE FAVORABLY
 RECEIVED AND ACCEPTED AS FULL SATISFACTION OF OUR
 OBLIGATION.

15. IN LIGHT OF THE ABOVE WE WOULD BE GRATEFUL FOR ANY
 ADDITIONAL RECOMMENDATION YOU MAY HAVE ON VISIT HIGH-
 LEVEL USG OFFICIAL IN CONNECTION WITH
 THIS QUESTION. 44

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